Issues and Options

DOE 1605(b) Draft Guidelines
First draft
5/27/05

Issue #1. The current guidelines for ownership of emission reductions, coupled with the requirement for entity reporting, create procedural and cost burdens on agricultural and forestry carbon sequestration projects that will make many of them infeasible and seriously discourage their expansion as part of the 1605(b) voluntary reporting system.

Rationale: Section 300.8(k) states that "The entity that DOE will assume to be responsible for emission reduction, … or sequestered carbon is the entity with financial control of the facility, land … or the place where the sequestration action occurred." This places the initial responsibility for reporting on the landowner. If an emitting entity wishes to report the results of a sequestration project as an offset against their emissions, that is allowed, but the landowner (called a third party) is not relieved of its full reporting requirements. Section 300.7(d) states that "the reporting entity or aggregator must include in its report all of the information on the third party, including an entity statement, an emissions inventory (when required) an assessment of emission reductions, and appropriate certifications, that would be required if the third party were directly reporting to EIA." It is fairly easy to assume that most, if not all, of these "third parties" will be farms or forestry operations that will generally be small emitters. In those cases, the entity statement required is less extensive, and can cover only the activities involved (300.7(c)(2)), but an aggregator would still need to obtain private business information from a third party (project landowner) (300.5(e)(1-5)) that would exceed most arms-length project agreements and could raise serious privacy concerns with landowners. In addition, the report to DOE must include a certification by the third party (300.7(d)) indicating that the reporting entity or aggregator should be recognized as the entity responsible for any registered reductions and that the third party does not intend to report directly to DOE.

The total effect of these requirements imposes undue costs and burdens on reporters, aggregators and third parties that would significantly increase transaction costs on carbon sequestration projects in agriculture and forestry with little benefit to the integrity of the 1605(b) reporting system.

In the case of aggregators, there are often several projects involved within one reporting unit. This is generally due to the fact that agriculture and forestry projects generate fairly small carbon sequestration amounts per acre, and most ownerships involve a few hundred acres at most. In addition, the farm or forest operations generate very small emission amounts, so are not the central concern of the national policy aimed at encouraging voluntary reductions. Having reporting entities or aggregators complete entity reports, demonstrate their small entity status periodically through emission inventory maintenance, and report on an annual basis constitutes a significant paperwork load, both on them and on EIA, for little if any gain in achieving national voluntary reduction

targets. On the other hand, encouraging reporting emitters to sponsor sequestration projects on those farm and forest operations strongly encourages a broad range of voluntary conservation actions that is central to the national policy. Facilitating the ability of aggregators and reporting emitters to achieve these benefits with minimal transaction costs is the best way for a voluntary program to provide these incentives.

Proposal: One way to approach this issue would be to make the following changes to Section 300.8:

- Insert the following language in Section 300.8(k): *"**Except for projects falling under subsection (1),*** the entity that DOE will presume…. ".
- Then add the following or similar language as Section 300.8(k)(1):
    - ***For carbon sequestration projects on agriculture or forest lands, the DOE will recognize an aggregator or other reporting entity as the entity responsible for the carbon sequestration amounts where:***
        - ***The aggregator or reporting entity meets all other requirements for reporting under this part;***
        - ***The aggregator or reporting entity certifies that it has, on file and available for verification audit or DOE review:***
            - ***Legal proof of equity interest in the reported carbon stock changes.***
            - ***Valid and auditable geographic locations of all project lands, appropriate project management plans, and legal permission to allow future access to project locations for purposes of measuring, monitoring, or verifying reported carbon stock changes; and,***
            - ***A certification by the entity with control of the land where the sequestration occurred that the carbon sequestration project action will not result in actions elsewhere within that entity's control that produces additional GHG emissions.***
        - ***The reported emissions from each project have been calculated or measured with methods that achieve a project-weighted rating of 3.0 under the guidelines referenced under section 300.13.***

Effect: If this change is incorporated in the guidelines, reporting entities or aggregators that report ownership or equity interest in offsets from a group of small projects (up to hundreds) can create a report that certifies to having met the other aspects of the guidelines without the expense of creating and maintaining individual entity reports for all those farm and forest operations. The integrity of the reporting system is maintained, double-counting and leakage is addressed by the legal agreements required between landowner and aggregator or reporter, the transaction costs of maintaining reports or registration of groups of small projects are dramatically reduced, and the system encourages, rather than discourages, the assembly of small projects from agriculture and forestry.

This change appears to be fully compatible with 300.10(c)(2) and 300.11(e)(6) regarding certification of reports and independent verification.

Conforming changes

At 300.3(b), 4th sentence, insert the term agency operational unit, after the word "agency," to read "… state government, agency, agency operational unit, etc.), the entity …".

At 300.4(b)(3), change to read: "Emissions, emission reductions or sequestration from facilities, vehicles or that are is partially owned, or leased, or in specific activities on third party land in which there is a financial interest or not directly controlled by the reporting entity, may be included at the entity's discretion provided that the entity has taken reasonable steps to assure that doing so does not result in the double counting of emissions, sequestration or emission reductions."

At 300.5(e)(3), insert as follows: "(3) An identification of the entity's control or financial interest in the specific activities covered by the entity's reports, if other than financial control;"

At 300.7(d), 4th sentence: Unless the reporting entity or aggregator is the entity responsible for the emissions reductions or sequestration (300.8(k)), the reporting entity or aggregator must include in its report all of the information on the third party, ….

At 300.8 (h)(5)(k) at the end add; The entity that DOE will presume to be responsible ….. generated the energy that was sold so as to avoid other emissions, or was responsible through financial interest for the specific activity that resulted in the sequestration.

Issue #2. The rating system creates serious inequities across activities, GHG's, and management systems.

Rationale: This appears to be a result of the decision that the "best available" method for each gas or activity would be given an "A" rating while, if there were several methods available, they would be ranked by their perceived certainty. The result is that, on a gas like N_2O, where the science is not well developed and field measurement methods aren't feasible, a default method based on inputs is given an "A" rating. In forest ecosystems, the use of lookup tables that have been developed over many years of research rate a "C" or "D" unless they have been validated by independent data from the specific site and management condition.

With soil carbon, the COMET model gets an "A" if the statistical uncertainty is < 15% and a "B" if it is > 15%. That statistical estimate is based on the number of research examples available for use in calculating the estimate in a particular area or situation. If COMET returns a "99.99," meaning there were too few research points to even construct an uncertainty estimate, the guidelines still suggest a "B" rating. Forest growth and yield

models, whether COLE or one of the many that are in widespread usage to calculate timber resources, earn a “B” unless they have been validated with data specific to the site and management, when they can earn an “A”.

Proposal: Where only default methods are available and statistical uncertainties unknown, give the method a “B” rating. That would let it qualify, but it could not then be used to raise the quantity-rated total rating of an inventory above the acceptable mark. For the forest ratings, regional lookup tables that match the site and management conditions should rate a “B”, and approved models that are parameterized specifically to the site and management should rate an “A”.

A future goal should be to link the ratings to a set of statistical bounds. There should be little reason why each of the rating methods cannot be linked to an estimate of uncertainty, and rated accordingly.

Issue #3. DOE has set itself up to be the technical arbiter of methods and models.

In forest management, there have been many methods and models created and validated for different management systems, site conditions, and species. DOE needs to encourage the USDA Forest Service to create a simple method by which an entity can submit a model and the associated validation evidence for approval. The use of peer-reviewed models should be accepted.

Issue #4. There have been questions raised about the Forest Service lookup tables, particularly on the volumes listed for the early growth years.

These questions should be sent to the Forest Service for its review to make certain that the tables are technically supportable.